

Governor's Consensus Revenue Estimating Panel Minutes
State House
Concord, NH
May 10, 2016

Members Present:

Meredith Telus, Governor's Budget Director (Chair)
Carolynn Ward, Department of Revenue
Melissa Rollins, Department of Revenue
Gerard Murphy, State Comptroller, Department of Administrative Services
Jeff McLynch, New Hampshire Fiscal Policy Institute
Greg Bird, New Hampshire Fiscal Policy Institute
Ross Gittel, Chancellor of the Community College System of New Hampshire
Russ Thibeault, President, Applied Economic Research
By phone: Dick Samuels, McLane Law

3:30pm Chair opened the meeting.

The panel engaged in discussion of business taxes. To start, Russ provided a headline which read "US Corporate Profits are on target for 3rd straight quarter of decline." Ross and other members noted, while it would make sense to think that such a headline does not bode well for future revenue, historically the correlation between corporate profits and our business tax revenue has been surprisingly weak. The panel compared growth over the last six years (SFY 2011 to projected SFY 2016).

The panel agreed it would be best to use Ross's "split-difference" number which takes the difference between growth year-to-date and actual revenue the last two months of SFY 2015 for SFY 2016 revenue estimate. This tempers the growth rate by around half. The reason for such a potential tempering would be a reduction in estimated payments in June because of the rate reduction we are anticipating in calendar 2017. Telus suggested that is probably more conservative than the reduction in June estimate payments are likely to be, given that the reduction estimated last June for total impact was around \$5 million. Greg and Russ asked whether it is better to be optimistic or pessimistic in the forecast. Telus said the important point is to hammer out SFY 2016 because that is the base for the 17, 18, and 19 growth. After the currently considered tax bills are passed or not passed, DRA will have to do analysis to incorporate the potential impact on 17, 18, and 19.

Ross stated it is likely calendar year 17 will be like calendar year 16 in terms of economic performance, but not growth. Greg wondered whether we are due for another recession. The panel discussed that while there has been the threat of an interest rate hike for years, it is very unlikely Janet Yellen, the current Federal Reserve Chair, will raise rates in any manner that will threaten economic growth.

Russ asked whether businesses had "used up" all of their losses at this point. Melissa and Carolynn stated that was not the case - there is possibly \$175 million of NOL still on the books. However, Ross

pointed out, some of that could be businesses close to bankruptcy or ready to go out of business which will never get used.

Russ wondered what contributed to the very high (14%) growth seen in SFY 2016. Ross theorized that this is a "Catch-up" year where businesses which had been experiencing losses are no longer seeing those losses and therefore the profits are finally showing. Russ reported he had recently seen a business where that is exactly what happened. Ross suggested it would be helpful to know the trend of the growth in SFY 2016, in other words was it getting stronger or had it all occurred at the beginning and is now declining? The panelists agreed it was strong in the first six months and was somewhat leveling out, but was mostly sustained over the last four months.

The panel agreed it would seem reasonable to take out the SFY 2016 growth from the average as it appears to be the outlier and just use the four data points over the five prior years, which is a growth rate for SFY 2017 of 3.5%. Dick thought that was a little conservative. The forecast for GDP is 2.2% and the total wage bill is 6%. The panel agreed it would be sensible to project business tax revenue growth somewhere in the middle. However, growth is anticipated to slow over the future years. Also, Greg mentioned his research has shown strong hiring recently, but the panel felt future growth could be constrained by New Hampshire's limited labor force (aging population and very low unemployment), so growth for SFY 2018 was projected at 2.5% and for SFY 2019 at 1.8%.

The panel felt Meals and Rooms tax was likely to be slightly above average in SFY 2017 (5.4%) and at the average for SFY 2018 and 2019 (4.9%). There was some discussion of whether tobacco stamp numbers were down or up. Gerard said they are going in a positive direction. It is possible that Massachusetts and Vermont will increase the legal age to purchase cigarettes, but those bills have not been passed into law, yet. If they do, that could drive up cross-border sales in New Hampshire. Until we know whether those bills are passed into law, however, the panel decided to target the revenue projection at 0% for SFYs 2017, 2018, and 2019.

Greg pointed out the Liquor number in the projection for SFY 2016 was higher than the projection from Ross's spreadsheet. Using a "split-difference" projection, the revenue would only be \$140 million, or a 1.1% growth. The Commission stated revenue for SFY 2017 will only be \$140.5, lower than their projection for SFY 2016 by \$1.4 million because SFY 2016 included revenue from the sale of the Salem store. The Commission is also concerned with competition as a large nation-wide retailer is slated to open multiple locations in Massachusetts. Russ noted there had been quite a bit of expansion in recent years, and it is surprising the State is not seeing the revenue from that, particularly the Hooksett stores. The panel discussed that though stores have been renovated or expanded, more floor space also means more employees which increases operating costs and reduces transfer to the General Fund. The panel thought the revenue for SFY 2017 may be zero, but would not be negative. Based on historic trend, conservative growth over the next two years was projected at 1.5 percent.

At this point Dick Samuels had to attend another meeting and excused himself from the phone call.

Carolynn and Melissa shared that returns for Interest and Dividends this April were down over last April 19%, estimates were down 6%, and extensions were down 26%. Russ shared that deposits in the state-

chartered banks are rising - up 50% since the recession hit. People are keeping money in checking accounts because they can't get a decent yield elsewhere. Ross, Russ, Greg, and Jeff were asking DRA whether the reductions seen were interest-related or dividend-related. Carollynn and Melissa said they were starting to look more closely at the I&D numbers, but could not provide more information, yet. Meredith suggested they wait until the next meeting, where they would have the information and Dick could participate.

Russ mentioned that in his presentation last Monday he had projected real estate growth of around 5%, but given the average shown in our projections that seems low. That said, we will start to see constrained inventory. The commercial market, which is 15-20% of the total is doing very well. Greg asked whether we would start to see a problem with affordability. Russ stated the median prices are still below 2007 and we've seen the wage growth since then, so it should not be too much of an issue soon. That said, one of two things can still happen - 1) the interest rates go up, which, if history is our guide, can really slow growth, or some recession will hit and the economy generally will slow. The panel decided it is not unlikely that the real estate transfer tax would be 7% in SFY 2017, which is lower than the 9.9% year-over-year growth seen in the last six years, and could be 5% in SFYs 2018 and 2019.

The meeting adjourned at 5:10. The next meeting will be scheduled for early July.